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The Budget Speech 2008

Responsible Leadership

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The Honourable James M. Flaherty, P.C., M.P.
Minister of Finance

February 26, 2008



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Department of Finance
Canada

Ministère des Finances
Canada

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Budget 2008—Responsible Leadership

Introduction

Mr. Speaker:

The budget is balanced.

Taxes have been cut.

And Canadians will now have a powerful new incentive to save money, tax-free: the Tax-Free Savings Account that we are announcing today.

Our Government is meeting the challenge of global economic uncertainty with a plan that is real. A plan that is responsible. A plan that is working.

Mr. Speaker, the fundamentals of the Canadian economy are strong:

- We are running surpluses and paying down substantial amounts of debt;
- We are reducing the tax burden to the lowest level since the government of John George Diefenbaker;
- Inflation is low and stable;
- Interest rates are low; and
- Unemployment is the lowest it has been in 33 years.

But Canada is not an island.

Challenges from abroad impact us here at home:

- The economy in the United States, our biggest trading partner, is slowing down;
- There is volatility in global financial markets;
- Some sectors of our economy are struggling; and
- The overall Canadian economy will likely grow more slowly over the next two years.



Meeting these challenges is critical. Not just for our country, but for our families.

Mr. Speaker, we have come to a fork in the road.

Some would have us go down the path to higher spending, higher interest payments and higher taxes. Perhaps even an increase in the GST.

But that approach is misguided. There is another way.

Our Government is taking the path that requires focus, prudence and discipline. And, Mr. Speaker, we know where we are going and we have a plan to take us there: *Advantage Canada*. It's an economic plan rooted in reality. A plan that is responsible. A way forward for the long term.

Our Government recognized the coming challenges and we moved forward with a sense of purpose and determination. We have been:

- Preparing for the prospect of slower growth;
- Laying stronger economic foundations; and
- Keeping our eye on core federal responsibilities.

Last spring, in Budget 2007, we brought in temporary tax help for manufacturers with a \$1.3-billion accelerated capital cost allowance incentive.

In the fall Economic Statement, we acted decisively with \$60 billion in tax relief, including a further reduction in the GST, a reduction in personal income taxes and historic reductions in business taxes.

In fact, this year alone our Government is injecting \$21 billion of stimulus into the Canadian economy. As a share of the economy, this is significantly greater than the stimulus package offered by the U.S.

In January, we announced the Community Development Trust to support workers and communities already feeling the pinch.

And we are providing additional support for Canadian farm families: better access to \$3.3 billion in advances to cope with extraordinary market pressures in the livestock sector, and \$50 million to help the hog sector adjust to new market realities.

Taxes on Individuals

Some say we should not have provided tax relief for individuals, families, workers and seniors. They call it “blowing the surplus.”

Well, Mr. Speaker, it takes a certain kind of Ottawa politician to view giving people their hard-earned money back as “blowing the surplus.”

Today, our Government is proud to say it: Canadians pay less tax.

- A \$2,000 tax credit for every child in every family;
- The Canada Employment Credit;
- A fitness tax credit for kids;
- Pension income splitting for seniors and pensioners; and
- The GST reduced to 5 per cent.

In the weeks to come, Canadians across the country will file their tax returns. And they will see the \$2.9 billion of retroactive personal tax relief announced in the fall. Mr. Speaker, we didn’t wait. We acted. And Canadians can see the results.

To date, our Government has taken actions that will provide nearly \$200 billion in tax relief over this and the next five years, \$140 billion of which will be for individuals.

And taxes will continue to decline thanks to our Tax Back Guarantee. As we pay down the federal debt, interest savings are being returned to Canadians in personal income tax relief.

We are reducing the federal debt by more than \$37 billion, including \$10.2 billion this fiscal year. As a result, by 2009–10, personal income tax reductions provided under the Tax Back Guarantee will amount to \$2 billion.

Instead of a year-end spending spree, we are giving Canadians a direct stake in—and a direct benefit from—debt reduction.



Tax-Free Savings Account

If we are to help families prepare for the long term, we must ensure Canadians have the right incentives to save for the future.

Saving isn't always easy. But it's important.

Unfortunately, for too long, government punished people who did the right thing.

As one of my constituents recently said to me:

I go to work. I collect my pay. I pay my taxes. And after I pay my expenses each month, I try to put some money away. I don't have a lot. But I am reaching my goal.

Yet, the federal government taxes me on what I earn on my savings and my investments. Savings and investments I socked away with after-tax income. Why am I being punished for doing the right thing?

Mr. Speaker, he's right. And we're going to change that.

The Government will unveil the single most important personal savings vehicle since the introduction of the RRSP: the Tax-Free Savings Account.

This flexible, registered, general-purpose account will allow Canadians to watch their savings grow, tax-free.

It's the first account of its kind in Canadian history.

This is how it works:

- First, Canadians can contribute up to \$5,000 every year to a registered Tax-Free Savings Account, plus carry forward any unused room to future years;
- Second, the investment income, including capital gains, earned in the plan will be exempt from any tax, even when withdrawn;
- Third, Canadians can withdraw from the account at any time without restriction. Better yet, there are no restrictions on what they can save for; and
- Finally, the full amount of withdrawals may be re-contributed to their Tax-Free Savings Account in the future, to ensure no loss in a person's total savings room.

An RRSP is primarily designed for retirement. In many ways, a Tax-Free Savings Account is like an RRSP for everything else in your life.

It is a powerful incentive to save:

- To help young people saving for their first car;
- To help couples saving for their first home;
- To help seniors stretch their retirement savings further; and
- To help every Canadian set aside a bit of cash each month for a special project, to help their kids, or to simply treat themselves.

To make it easier for lower- and modest-income Canadians to save, there will be no clawbacks. Neither the income or capital gains earned in a Tax-Free Savings Account nor the withdrawals from it will affect eligibility for federal income-tested benefits, such as the Guaranteed Income Supplement.

Seniors and Northern Residents

The generations that came before us deserve to live their retirement years with dignity and respect.

Many seniors are living on a fixed income. Oftentimes, they find it difficult to make ends meet. This year alone, our Government is providing about \$5 billion in tax relief for seniors and pensioners, including:

- A doubling of the pension income amount to \$2,000;
- Increasing the Age Credit amount by \$1,000;
- Increasing the age limit for maturing RPPs and RRSPs; and
- For the first time ever in Canada, pension income splitting for seniors and pensioners.

But we can do more to support our seniors. Today, we are increasing the Guaranteed Income Supplement exemption to \$3,500, from the current maximum of \$500. This will benefit low- and modest-income seniors who choose to continue working.

Financially, it can be challenging for seniors, but it can also be challenging for those living in northern and isolated communities.

To help offset the higher cost of living, we are increasing the daily amount of the Northern Residents Deduction by 10 per cent to \$16.50. This increase will bring the maximum amount of the residency deduction to \$6,022.50.



This is long overdue.

The Northern Residents Deduction has not been increased since Finance Minister Michael Wilson stood in this place and delivered his budget in 1986.

Investing in Canadian Business

Our Government is also committed to making Canada a great place to create and expand a business. As international competition increases, steps must be taken to encourage investment and sharpen our competitive edge.

That's why we have abolished the federal capital tax and provided a financial incentive to encourage provinces to eliminate their capital taxes as quickly as possible.

That's why, last fall, we set out a long-term plan to reduce the federal corporate income tax rate to 15 per cent by 2012. This bold initiative will give Canada the lowest overall tax rate on new business investment in the G7 by 2010, and the lowest statutory tax rate in the G7 by 2012.

And that's why we are calling on the provinces to reduce their corporate income taxes. Our goal is to achieve a combined federal-provincial tax rate of 25 per cent by 2012. This will not only give a lift to our traditional industries, but will make our competitive business taxes a powerful brand globally.

Some, like British Columbia, have already taken significant steps in this direction.

Mr. Speaker, our tax relief measures are working now for the benefit of all Canadians.

Actions taken by the Government since 2006 are providing \$21 billion in incremental tax relief to Canadians and Canadian businesses this year. This is significant and substantial economic stimulus, equivalent to 1.4 per cent of Canada's GDP.

A year ago, we could see that Canadian manufacturers and processors were facing very challenging times. That's why, in Budget 2007, we brought in a temporary accelerated capital cost allowance. This initiative allows manufacturing businesses to fully write off investments in machinery and equipment over a two-year period.



By 2009–10, this measure alone will benefit the manufacturing and processing sector to the tune of \$1.3 billion. It is helping Canadian manufacturers make the investments needed to build modern facilities here at home and still take on the world.

Mr. Speaker, today our Government is going even further. We are extending temporary accelerated capital cost allowance treatment for three years on a declining basis. This will provide the manufacturing and processing sector with an additional \$1 billion in tax relief.

We are also investing in research and development to strengthen our economy and stimulate innovation and discovery.

The auto sector has been a major driver of the Canadian economy. Automotive engineers, assembly workers and parts manufacturers are the foundation of many communities like my riding of Whitby–Oshawa.

Our Government knows how important it is for our auto sector to get out in front of the competition and stay there. Technology is quickly evolving and we must be relentless in our pursuit of new breakthroughs.

As a result, we are providing \$250 million for an Automotive Innovation Fund. This money will fuel the development of greener and more fuel-efficient vehicles. This will help preserve the environment. It will also help preserve and create high-quality jobs.

This is the kind of investment promised in our 2007 Science and Technology Strategy.

Today, we are providing an additional \$440 million in this and the next two years to secure Canada's leadership in the global marketplace through research and innovation. This includes \$80 million annually for university research, to:

- Meet the innovation needs of Canada's automotive, manufacturing, forestry and fishing industries;
- Address health priorities; and
- Advance social and economic development in the North.



Helping Canada's Communities

As the economy slows, Canada's communities need help too.

Our \$1-billion Community Development Trust is providing vulnerable communities facing major downturns with much-needed financial assistance. It supports workers in areas where the entire region is struggling by funding:

- Job training;
- Community transition plans that create new jobs; and
- Infrastructure and other initiatives that stimulate economic diversification.

Today, we are also providing additional support for older workers who have been laid off. We are extending the Targeted Initiative for Older Workers through to 2012. This is a new \$90-million investment in capable, experienced workers aged 55 to 64. It will allow them to remain productive participants in the workforce and help alleviate labour shortages where they exist.

The Employment Insurance program is a safety net for struggling Canadian workers. To strengthen the EI Account, our Government is creating the Canada Employment Insurance Financing Board. Starting in 2009, this new, independent Crown corporation will be responsible for:

- Implementing a new EI premium rate-setting mechanism; and
- Maintaining a cash reserve of \$2 billion provided by the Government.

With this reform, Canadian workers and communities can be confident that EI will be managed on a truly break-even basis.

Even in good economic times, there are those at risk of being left behind. But Canadians are guided by the values of compassion, kindness and generosity. That's why the Mental Health Commission of Canada was struck last year. Under the leadership of the Honourable Michael Kirby, the Commission has recommended the Government proceed with five pilot projects across the country. These will help increase our knowledge of those who are homeless and suffering from mental illness.

Today, we are providing \$110 million to establish demonstration projects in Vancouver, Winnipeg, Toronto, Montréal and Moncton.

These initiatives will allow us to establish best practices in addressing the needs of these vulnerable people as we go forward. This is an important step towards dealing with this problem.



To support our communities and ensure the competitiveness of the Canadian economy, Canada needs access to modern infrastructure. Our Government is making the largest single federal investment in public infrastructure since World War II through our Building Canada plan—a total of \$33 billion over seven years for roads, bridges, water systems, public transit and international gateways.

To help us maximize this investment, we have created a new Crown corporation called PPP Canada Inc. It will be the first public-private partnership office of its kind at the federal level in Canada. By increasing our use of P3s and taking into account contributions by other levels of government, we should be able to leverage a \$100-billion investment in infrastructure.

Another key component of our Building Canada plan is the federal Gas Tax Fund. This is direct funding to our cities, towns and communities for essential infrastructure. In Budget 2007, our Government extended this funding to 2014.

Today, we are announcing the permanent extension of gas tax funding, which will reach \$2 billion per year in 2009–10. Municipalities large and small, from coast to coast, will be able to plan and finance their infrastructure needs with this additional funding, every year, forever.

Public transit is one of the keys to achieving a cleaner and healthier environment. That's why our Government has been making significant investments to provide alternative transportation options. In order to entice people out of their cars and onto public transit, we have provided:

- \$1.3 billion in support for public transit capital investments; and
- The tax credit for public transit passes.

In addition, today we are providing \$500 million to make further investments in public transit capital infrastructure. This funding will be dedicated to several specific projects, including:

- The Evergreen Light Rapid Transit System in Vancouver;
- The re-establishment of the rail link between the City of Peterborough and Toronto's Union Station following the existing right of way; and
- New equipment and upgrades to dedicated rapid transit routes for the Aéroports de Montréal.

Investing in modern public transit is about preserving our environment. It's about reducing traffic congestion so goods can get to market on time. It's about creating a seamless, modern, safe and secure transportation system for the benefit of all Canadians.



Focusing on Core Responsibilities

In these challenging times, we are focusing on our core responsibilities.

The federal government has long helped Canadian students finance their education. Today, this historic role has taken on even greater importance. We must ensure that the next generation of Canadians has the opportunity to excel in this increasingly competitive world.

To that end, Mr. Speaker, our Government is investing in a new consolidated post-secondary Canada Student Grant Program. It will be a single focused program that fully respects provincial jurisdiction. It will also provide more effective support to more students for more years of study.

As the Canada Millennium Scholarship Foundation winds down, our Government will provide \$350 million for this Canada Student Grant Program in 2009–10, growing to \$430 million in 2012–13.

In comparison to the predecessor programs, this funding will reach an estimated 245,000 students. This is over 100,000 more students from low- and middle-income families than the current system.

My colleague, the Minister of Human Resources and Social Development, will be consulting with students and the provinces and territories to finalize specifics of the program.

To develop and attract the next generation of world-class researchers, our Government is creating a new class of doctoral scholarships named in honour of former Governor General Georges P. Vanier.

Governor General Vanier was a true statesman and a hero. He was a soldier who fought in the First World War and was one of the founders of the Royal 22nd Regiment. He was also renowned for his promotion of excellence in youth.

Our Government will provide \$100 million over five years beginning in 2008–09 for the Vanier Scholarships. These will attract the best doctoral students from here and around the world to study in Canada. The Vanier Scholarships will build on Canada's existing strength in graduate education and help build the skilled workforce needed to face the challenges of the future.

To strengthen the ability of Canadian universities to attract and retain the world's top scientific leaders, our Government will provide \$21 million to establish Canada Global Excellence Research Chairs.



These prestigious Research Chairs will be offered in the four priority areas identified in the Government's Science and Technology Strategy:

- The environment;
- Natural resources and energy;
- Health; and
- Information and communication technologies.

This funding will allow each Chair to assemble outstanding research teams and undertake cutting-edge research in areas of strategic importance to Canada.

Canada also needs to do a better job of bringing Aboriginal Canadians into the skilled workforce, another core responsibility.

During my pre-budget consultations, Chief Clarence Louie of the Osoyoos First Nation in B.C. pointed out that there are a large number of Aboriginal Canadians willing to work, they just need a chance. He suggested the Government's focus needs to shift from social services to economic development and skills training.

Mr. Speaker, our Government couldn't agree more. Today, we are providing \$70 million over the next two years to establish a new framework for Aboriginal economic development. This new approach will allow us to better match the skills and training of Aboriginal Canadians with labour market demands.

In addition, we are providing \$70 million over two years to support tripartite agreements with willing First Nations and provinces to develop more effective approaches to First Nations education.

We are also making important new investments in immigration.

In Budget 2007, we made significant progress in this area by streamlining the Temporary Foreign Worker Program, enabling employers to bring in workers more quickly. We also changed the rules allowing skilled workers and foreign students to remain in Canada as permanent residents, people this country needs.

Today, we are going even further. We are changing the Immigration and Refugee Protection Act to improve and speed up the application process. It is not fair for prospective immigrants to wait for years before their applications are considered.



In addition, we are providing \$22 million in new funding to support immigration initiatives over the next two years. This funding will improve the responsiveness of our immigration system and better align it with our labour market needs.

Focusing on our core responsibilities also means preserving and protecting the environment. Canadians demand and expect that action is being taken to reduce harmful emissions and to crack down on polluters.

Since 2006, our Government has announced numerous initiatives to support cleaner energy, clean transportation alternatives, cleaner air and water, and the development of green technology.

Our Government has committed to reduce Canada's total greenhouse gas emissions 60 to 70 per cent by 2050. This is an ambitious and achievable goal.

Mr. Speaker, today we are taking action to fulfill our commitments to a cleaner, healthier environment:

- Our Government is committing \$250 million for carbon capture and storage projects;
- Our Government is providing \$66 million over two years to lay the foundation for market-based mechanisms that will help establish a price for carbon and support the development of carbon trading in Canada;
- Our Government is providing \$21 million over two years for resources to better enforce our environmental laws;
- Our Government is providing \$13 million over two years to accelerate access to cleaner, renewable fuels for cars and trucks; and
- Our Government is further expanding tax incentives for clean energy generation.

Canadians want a healthy environment. They also want healthy, safe communities.

Mr. Speaker, today our Government is taking another step towards building safer communities and putting criminals out of business. We are putting more police officers on our streets.

We are providing \$400 million to hire 2,500 new front-line police officers over the next five years. This money will be available to provinces and territories that have publicly committed to new recruitment programs.



Our Government is also delivering additional support for our brave men and women in the Canadian Forces and their families. In this budget, we are providing stable, predictable funding with annual increases in defence spending of 2 per cent starting in 2011–12.

We are also helping survivors of veterans with \$282 million over this and the next two years to expand the Veterans Independence Program.

Mr. Speaker, since taking office our Government has been vigilant in focusing and reviewing government spending. We want to ensure Canadians receive full value for the money they pay in taxes.

The Government has introduced a new Expenditure Management System with a greater focus on results. Under this new approach, the President of the Treasury Board is leading strategic reviews of all departmental spending. These reviews are about better management and ensuring that all government spending is aligned with the priorities of Canadians.

In this initial review year, 17 organizations participated in strategic reviews, examining department spending amounting to \$13.6 billion, or 15 per cent of total direct program spending. As a result, they are streamlining operations, realigning their activities and transforming their organizations in order to deliver better results.

All savings from these reviews are being directed to new initiatives in these departments and other priorities in this budget.

Focusing on our core responsibilities also means strengthening Canada's economic union.

Nowhere is this ambition of a stronger economic union more important than in the domain of capital markets. This is why our Government put forward a plan to create a Canadian advantage in global capital markets—a plan that will benefit Canadian enterprises seeking capital and Canadian investors looking for investment opportunities for their savings.

I have appointed an Expert Panel on Securities Regulation. It will advise me and provincial-territorial ministers on the content, structure and enforcement of securities regulation, including a model common securities act. The Expert Panel will report by the end of the year.



Conclusion

Mr. Speaker, Canada has had a strong year and we are well positioned to weather any sudden economic storms.

Our Government has taken care to strengthen our economic fundamentals.

The economy grew faster than expected a year ago when I presented Budget 2007. The extra federal revenues we received have been used in a balanced way.

- 1) In the fall Economic Statement, we announced lower taxes, some of them retroactive to the beginning of 2007. This year, we are providing substantial economic stimulus—\$21 billion in incremental tax relief to Canadians and Canadian businesses. This is equivalent to 1.4 per cent of Canada's GDP.
- 2) Including measures announced today, we are providing \$1.1 billion in one-time efforts to help workers and communities that are already feeling the effects of the slowing economy.
- 3) And finally, we are reducing the debt by \$10.2 billion this fiscal year, bringing our cumulative debt reduction since coming to office to more than \$37 billion.

Mr. Speaker, there are challenges on the horizon. We are seeing increased global uncertainty.

But we are prepared.

We have a long-term economic plan: *Advantage Canada*.

And we are building on that plan.

Today's budget is prudent, disciplined and realistic. It is focused on preparing Canada and Canadians for the challenges ahead.

It lets Canadians save tax-free with Tax-Free Savings Accounts.

It helps students, seniors and workers, especially older and displaced workers.



It focuses federal spending on core responsibilities, and strengthens the integrity of the EI Account to ensure it will be managed on a truly break-even basis.

It tackles the consequences of mental illness and homelessness, adds new funds for more police, and sets aside stable, dependable funding for Canadian municipalities and the Canadian Forces.

Today's budget provides a further boost to Canadian businesses, especially manufacturers, and strengthens the economic union.

Canadians do not want our economy to slide back to high spending, high debt and higher taxes.

Prudent management, focus and discipline will serve us well as we face the challenges ahead.

Thank you.

